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Office of the Director
of Central Intelligence

NIO #2230/74
4 October 1974


MEMORANDUM FOR:

SUBJECT : Memoranda for
Secretary Simon

Here are copies of five short memoranda requested of CIA by Treasury in support of Secretary Simon's forthcoming trip to the USSR. They were prepared by the Offices of Economic Research and Current Intelligence.

Also requested and included are biographical sketches of six key Soviets with whom Secretary Simon is likely to confer. These were prepared by the Office of Central
Reference.

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National Intelligence Officer
for USSR/EE

Attachment

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

4 October 1974

The Honorable William E. Simon
The Secretary of the Treasury
Washington, D. C. 20220

Dear Bill,

I am transmitting a number of papers on Soviet matters which your people asked us to prepare in support of your forthcoming trip to Moscow. Let me take the occasion to raise a concern with you.

In our formal relations with the USSR, the intelligence community has a particular interest in the exchange of information. We need a good deal of Soviet economic data which are presently unavailable, and must be laboriously and only approximately estimated, if we are to provide the necessary first-rate support to you and other policymakers in a time of increasingly close engagement with the USSR. And beyond these particular needs, there is a broad US interest in persuading the Soviets to relax their habitual secretiveness if we are to deal with them in a truly normal fashion within a peaceful world.


With this in mind, I hope you will find occasions to impress on the Soviet leaders the seriousness with which we approach the bilateral agreements to exchange information. The Soviets have made formal commitments on this in the agreements on agriculture, transportation, and other areas. They have been less than forthcoming thus far in providing information under the Agriculture Agreement. We would hope that the agreement to

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exchange basic economic, industrial, and commercial information and forecasts under the recently concluded Long Term Cooperation Agreement will move forward and provide the insights we need into the Soviet economy. The Soviets ought not to be allowed to backslide, as they surely will do if we do not issue repeated firm reminders.

Sincerely,



W. E. Colby
Director

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Soviet Foreign Economic Policy Toward the West

The chief Soviet goal in trade with the West is to obtain equipment and technology to raise the level of Soviet industrial technology and to achieve production goals more rapidly than Communist resources permit.

Lately Soviet leaders have increasingly emphasized the value of Western technology. Their concern is to boost lagging productivity and to narrow the large and widening technological gap vis-a-vis the West.

- Soviet imports from the West have doubled since 1971 -- from almost \$3 billion to an estimated \$6 billion in 1974.
- New Soviet contracts for Western equipment increased from less than \$1 billion in 1971 to \$2.6 billion in 1973, and probably will be higher in 1974 (see Table).
- Cooperative ventures, mainly in resource development, have become a major vehicle for attracting Western capital investment as well as technology. Large projects are under way in the chemical, forestry, and energy fields.
- Long-term cooperation agreements with Western governments have encouraged similar agreements between the USSR and individual Western firms.

The US has become a major target in efforts to secure advanced technology, equipment, and other commodities.

- Soviet imports from the United States rose from \$150 million in 1971 to \$1.2 billion in 1973. Grain inflated the totals, but imports of equipment increased from \$60 million to \$200 million in the same period.
- Soviet contracts for US equipment have increased, and will keep imports from the US in 1974 at high levels despite a decline in

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Soviet Equipment Orders from Developed West a/

	Million US \$			
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974 <u>b/</u></u>
Total	850	1,695	2,600	1,845
US	240	320	450	500
W. Germany	145	370	490	200
France	80	480	425	445
Japan	140	135	205	100
Italy	65	165	625	250
UK	120	75	155	210
Other	60	150	250	140

a/ Rounded to nearest \$5 million.

b/ January-August.

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imports of grain. Imports of US equipment may reach \$400 million.

- The USSR is seeking US capital, technology, and know-how to help develop Soviet resources and industry. Big gas and oil deals are currently in abeyance, but large plant and equipment deals are being negotiated.
- US-Soviet S&T agreements have led to about 30 Soviet technology agreements with US firms.

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SOVIET ENERGY STRATEGY

Development and Growth

Since 1960, a remarkable expansion in energy production has supported Soviet economic development. (Table 1) Soviet economic plans depend on a continued rapid growth of energy supplies. But additions to capacity are becoming increasingly expensive.

About 80% of Soviet primary energy resources are located in Siberia, far from the industrial centers where three-fourths of the energy is used. Finding and developing these Siberian resources poses major problems:

- Harsh climate, difficult terrain and permafrost interfere.
- Soviet geophysical and exploration equipment is often obsolete or unsuited for complex geological structures or permafrost.
- A lack of computerized analytical facilities limits capability to locate new deposits.
- Western equipment and expertise are needed to exploit potential offshore oil deposits in northern and eastern seas.
- Shortages of good-quality drill pipe and casing, poor quality bits, underpowered mud pumps, and inadequate blowout preventers all hamper Soviet oilfield operations.
- The Soviets have recently acknowledged that, contrary to earlier expectations, production growth in the oil fields of West Siberia will slacken in five to six years. This slowdown will further increase the need to locate additional large reserves of oil and gas in East Siberia where conditions of terrain and climate are extremely difficult.

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Table 1
USSR: Production of Fuels and Power, 1960-1975 Plan

Source	Unit of Production	1960	1965	1970	1971	1972	1973	1975 Plan
Crude Oil	Million metric tons	147.2	241.7	348.8	371.8	393.8	421	496
Natural Gas	Billion cubic meters	45.3	127.7	197.9	212.4	221.4	236.3	320
Coal*	Million metric tons	490.1	545.1	577.5	591.5	603.6	615	639
Electric Power:	Billion kilowatt-hours	292.3	506.7	740.9	800.4	857.4	915	1,065
Thermal		241.4	425.3	616.5	674.3	734.5	790	900
Hydro		50.9	81.4	124.4	126.1	122.9	125	165
Nuclear Power	Billion kilowatt-hours	0	1.4	3.5	3.5	7.7	11.7	25
Oil Shale	Million metric tons	14.1	21.3	24.3	26.1	29.3	N.A.	32.7
Peat	Million metric tons	53.6	45.7	57.5	44.9	57.0	N.A.	78.3
Fuelwood	Million cubic meters	74.4	86.9	69	69	66.7	N.A.	55.5

* Net production.

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Three-fourths of Soviet coal reserves are also in Siberia, but most of these are suitable only for producing steam for heat or electric power generation. Exploitation even for power purposes must await further Soviet development of high-voltage, interconnected transmission networks to move large amounts of power westward to consuming centers.

Under existing Soviet plans, the oil and gas share of total energy consumption (see Table 2.) will continue to grow. These fuels, however, will be reserved for priority domestic uses and for export. Nuclear power will not be a significant energy source until after the mid-1980s.

Export

The USSR will strive to develop its energy resources for export as well as for domestic needs. For several years exports of oil have been the USSR's largest single source of foreign exchange. In 1973 exports to the West amounted to about 700,000 bpd and earned \$1.25 billion in hard currency. Moscow also delivered 1.1 million bpd of oil to Eastern Europe in 1973, about two-thirds of East European oil supplies. By the early 1980s the USSR probably will be able to continue meeting its own needs and those of Eastern Europe only if exports to the West are held to about the present level.

The USSR now is a small net importer of natural gas, but deliveries to Europe are scheduled to grow considerably as a result of contracts with Austria, West Germany, Italy, France, Finland and East European countries. By 1975, Eastern Europe will rely on the USSR for 20% of its total gas supply, twice the share obtained from the USSR in 1973.

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Table 2

USSR: Production and Consumption of Energy, 1973

	<u>Production</u>		<u>Consumption</u>	
	<u>Million tons*</u>	<u>Percent</u>	<u>Million tons*</u>	<u>Percent</u>
Oil	613	41.8	463	35.4
Natural gas	281	19.1	288	22.0
Coal	468	31.9	454	34.8
Hydroelectric and nuclear power	48	3.3	44	3.4
Other**	57	3.9	57	4.4
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TOTAL	1,467	100.0	1,306	100.0

* Million tons of hard coal equivalent (7,000,000 Kilocalories per metric tons.)

** Oil shale, peat, and fuelwood.

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Foreign Investment in Soviet Energy Development

The USSR is pushing cooperative ventures with US and Japanese firms to get Western assistance in developing Siberian gas deposits and to earn foreign exchange from sales of liquefied natural gas.

- US participation has become questionable because of pricing and financing problems.
- Even without US assistance, gas from West Siberian deposits could be sold to Western Europe when the Soviet pipeline network is completed.
- Japanese participation in developing East Siberian gas deposits without the US is uncertain.
- Foreign markets for East Siberian gas other than the US or Japan are unlikely to develop for some time.

The Japanese have agreed to provide \$450 million to help finance development of coal reserves in East Siberia near Yakutsk. In return, the USSR is to export 104 million tons of coking coal to Japan during 1979-98. A Soviet-Japanese cooperative arrangement exists to locate and develop oil deposits in the offshore area around Sakhalin, with Gulf Oil Company as technical advisor. If oil is discovered, Japan will be able to procure half the oil produced.

US or Soviet Energy Leverage?

In the energy field, neither the USSR nor the US has much bargaining power in relation to the other. Although the United States needs oil and the USSR needs modern equipment and technology, each can get along without the other. Soviet

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petroleum operations would be less efficient and growth in production might be smaller than with US equipment and technology. Nonetheless, the USSR could remain self-sufficient in oil and gas while earning substantial amounts of foreign exchange from exports. The United States could use Soviet oil and gas, but the amounts obtained probably would continue to be small relative to total US requirements.

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1974 Grain Prospects in the USSR and Eastern Europe

The USSR and Eastern Europe are expected to have good but not record grain crops this year. The harvest in both areas should largely cover domestic needs; major imports from the West will not be necessary.

USSR

Grain Production

We believe that the 1974 Soviet grain crop will be about 198 million tons -- short of the official goal of 206 million tons but still the second largest grain crop in Soviet history.

Rainfall, the most important determinant of grain yields, was abundant throughout most of the USSR during May and June. At the end of June, it appeared likely that the output goal would be achieved.

In July, the weather took a turn for the worse. As the grain reached the harvesting stage in the West, heavy rains lodged the plants and hindered the harvest. Because much of the cut grain was left in the fields too long, grain losses were high and the milling quality of the wheat was reduced. In the East, the weather was hot and dry while the grain was in the critical heading stage. We estimate that the drought destroyed 8 million tons of grain -- primarily wheat.

Prospects for Soviet Imports

The USSR will need 200 to 210 million tons of grain to cover domestic requirements and normal export commitments in FY 1975. Since carry-over stocks from last year's record harvest are 20 to 30 million tons, a crop of 198 million tons should be sufficient to make large-scale grain imports unnecessary in FY 1975. The sharp drop in grain purchases

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and a return to the usual level of grain exports will re-establish the Soviets as net exporters of grain in FY 1975.

The Soviets indeed have bought only small quantities of grain so far this year. Most of the one million tons of corn and wheat scheduled for delivery in FY 1975 are leftovers from 1972 and 1973 contracts with the US. In addition, a small amount of corn was recently purchased from Argentina.

The Soviets can use the imported grain to offset shortfalls in certain kinds of grain. The corn will help feed the growing livestock herds; the wheat may be used to make bread since the milling quality of this year's wheat crop and the carry-over stocks is doubtful.

Eastern Europe

Grain Production

We estimate the 1974 East European grain crop at 71 million metric tons -- 2.5 million tons below the 1973 record.

- Record crops were harvested in East Germany, Hungary, and Czechoslovakia.
- Poland's crop -- usually about 30 percent of the East European total -- flirted with disaster throughout the growing season, but ended in a harvest only 6 percent below the previous year's record.
- Bulgaria failed to improve over the past two harvests.
- Romania had its second poor harvest in a row.

Prospects for East European Imports

East European grain imports in FY 1975 are projected at 9 million tons, compared with 8 million tons in FY 1974. The

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USSR probably will supply 4.5 million tons, mostly wheat. Based on past trading patterns, the East Europeans will look to the United States for 2.0 to 2.5 million tons of grain, mostly corn, while seeking the balance from other Western sources.

The northern countries are expected to account for almost all of the imports: East Germany about 3.5 million tons, Poland 3 million tons plus, and Czechoslovakia about 1.5 million tons. All three countries have the option of reducing grain imports by purchasing other feeds, such as oilcake and meal, or by cutting livestock goals.

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Soviet Hard Currency Payments

Until this year's turnaround, the USSR has been unable to generate sufficient exports to finance growing imports from hard currency countries. (Table 1)

- Since 1965, deficits have been financed chiefly by credits. The Soviets rebuilt their depleted gold reserve, selling almost none before 1972.
- In 1972 and 1973 Soviet hard currency deficit rose dramatically -- averaging \$1.5 billion a year -- because of record imports of grain and equipment.
- Soviet gold was used to finance about 40 percent of the 1972-1973 deficit. Credits took care of the rest.
- Soviet debt is expected to exceed \$4 billion in 1974. (Table 2)
- To ease its debt burden and to generate exports, the Soviets have concluded a number of so-called cooperative ventures with Western firms which call for repayment of credits in the products developed by the venture.

The US has provided the Soviets with substantial credits since the May 1972 Summit.

- About \$500 million in long-term Eximbank credits.
- About \$500 million in matching private credits.
- About \$500 million in 3-year CCC credits for grain.
- About \$200 million in medium- and long-term credits from banks and other financial sources.

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Table 1
USSR Hard Currency Trade Deficit^{a/}

Million US \$			
<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1965	1,374	1,560	-186
1966	1,516	1,755	-238
1967	1,711	1,616	+95
1968	1,909	2,018	-109
1969	2,125	2,436	-311
1970	2,197	2,711	-514
1971	2,652	2,955	-303
1972	2,815	4,171	-1,357
1973	4,817	6,566	-1,749
1974 ^{b/}	7,500	6,000	+1,500

a. Based on official Soviet data.

b. Estimated.

Table 2
Soviet Credit Drawings and Repayments from the Developed West

Million US \$					
<u>Year</u>	<u>Credit Drawings</u>	<u>Interest Payments</u>	<u>Repayment of Principal</u>	<u>Net Credits</u>	<u>End of Year Debt</u>
1965	190	17	149	24	380
1966	275	20	150	105	505
1967	305	29	152	124	653
1968	510	38	217	255	951
1969	630	57	265	309	1316
1970	715	79	310	326	1722
1971	682	103	374	204	2029
1972	1030	122	451	457	2608
1973	1690	157	657	876	3641
1974 ^{a/}	1410	220	858	332	4194

^{a/} Preliminary

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But there has been a turnaround in the Soviet hard currency picture.

- High oil and other raw material prices will increase Soviet exports substantially, and grain imports will drop in 1974. An export surplus of \$1.5 billion is expected in 1974 and possibly a larger surplus in 1975.
- High gold prices provide an additional cushion. At \$150 an ounce, sales out of current production would earn the Soviets over \$1 billion in 1974 and even more in subsequent years.

The strong Soviet hard currency position will improve the USSR's economic bargaining power for the next few years.

- Moscow can now afford to pay cash. It recently agreed to buy roughly \$800 million worth of equipment for the Kursk steel complex in this fashion and has hinted that it might make similar offers to US companies.
- The USSR can resist high interest rates and is likely to bargain hard on other commercial terms.
- The Soviets can also consider postponing exports of some commodities, such as diamonds, which probably will bring higher prices in the future.

In the longer term, payments prospects are less favorable, however.

- Declining oil exports by the end of the decade will curb the increase in export earnings.
- Debt will grow if Moscow chooses to maintain the growth of imports.
- Total debt could rise to as much as \$13 billion by 1980.

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RECENT INTERNAL DEVELOPMENTS

After a month of watchful stock-taking, during which Soviet officials eagerly sought reassurances from US officials of policy continuity under President Ford, Brezhnev forcefully reaffirmed Soviet interest in improved US-Soviet relations in a late September speech. It is significant that these remarks came on the heels of the first post-vacation full-dress Politburo meeting. A foreign policy review in the light of various summer developments affecting detente was probably one agenda item at this session.

We have received reports this summer of growing divisions within the leadership over detente-related questions, such as SALT, MBFR and CSCE. In some reports Brezhnev is portrayed as under increasing pressure from critics of detente. At least some of these reports seem designed to convey the message that the US should accommodate Brezhnev's views or it will be stuck with some one tougher.

There may well be some truth in the reports. It would be surprising if recent changes in Western governments had not revived misgivings in some Soviet quarters about the pace and specific contents of detente. Brezhnev, having exploited for his own ends the technique of personal diplomacy, must be particularly unhappy with recent events in the West. He has, however, shown an ability to trim when necessary. While Brezhnev is the single most influential voice within the ruling circle and the leading spokesman on all Soviet policy, he continues to operate within a system of shared power in which the views of his colleagues carry great weight.

One issue now on the Soviet leaders' minds is long-term planning. This fall they are drawing up both a five-year and a fifteen-year plan for the period beginning in 1976. This process forces a consideration of long-term ends, such as the emphasis to give to consumer welfare, and also of basic means, such as the degree to which Western economic assistance is

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desirable and available. A Tass article recently revealed a brief outline of the long-term plan which indicates that priority attention will be given to developing Siberia, expanding agriculture in the non-black-soil zone, exploiting energy reserves, and improving consumer welfare--the "prime target."

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